DAILY GLOBAL COMMENTARY

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Why Are Other Yields Falling as the Treasury Bond Yield Rises?

June 9, 2009

There is a lot in the press these days about how the recent rise in Treasury bond yields has the potential to abort a nascent economic recovery. To this I say, nonsense! Chart 1 shows that as the Treasury bond yield has risen in recent weeks, the yields on privately-issued debt have declined in *absolute levels*. Chart 2 shows that the stock market has been trending higher since March as the Treasury bond yield has risen.

Chart 1

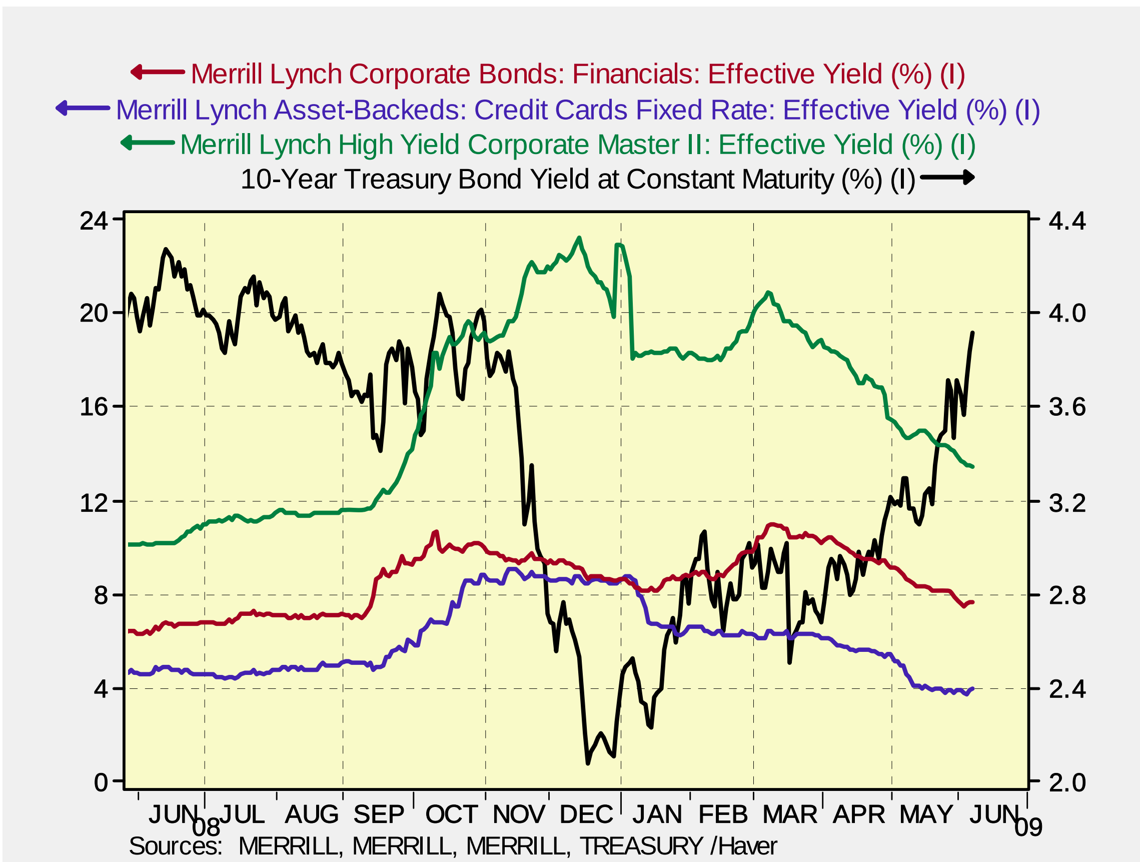
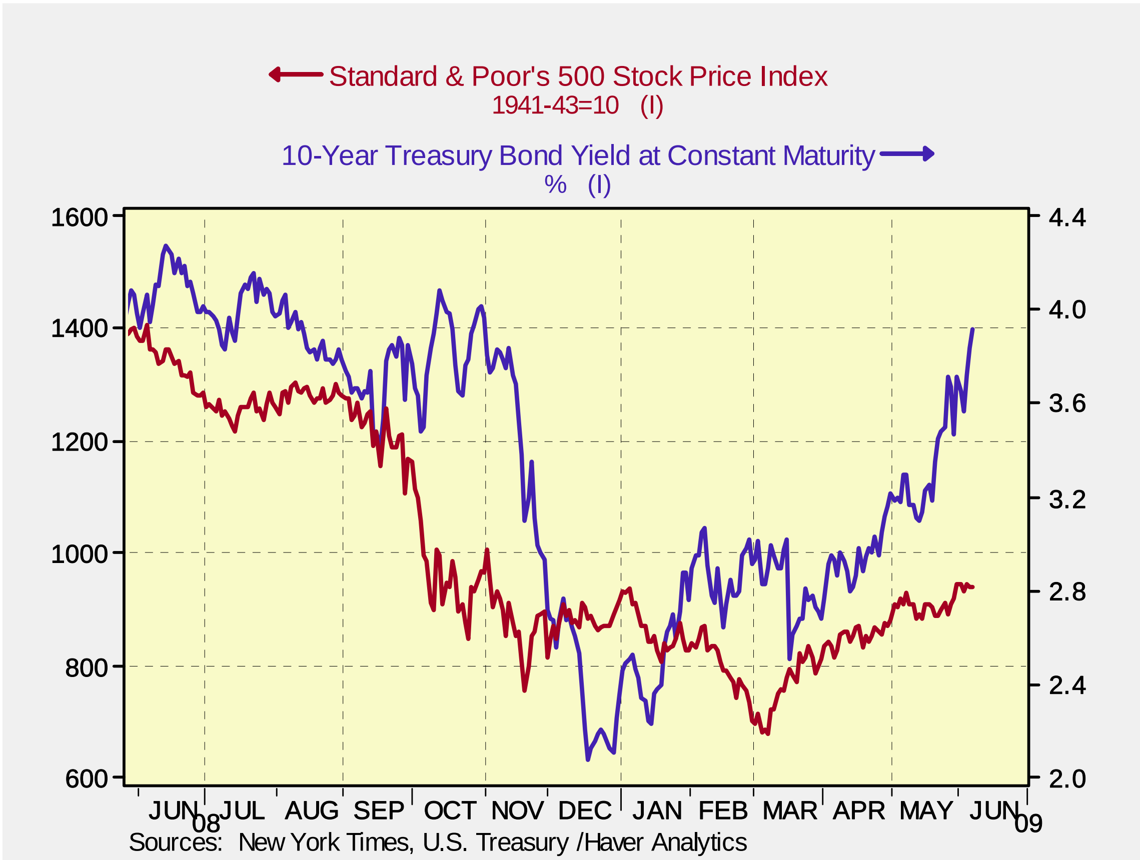


Chart 2



This combination of a rise in the Treasury bond yield, declines in yields on privately-issued bonds and rising stock prices is consistent with an asset allocation shift away from an asset with no credit risk to assets with credit risk. How can this lessen the chances of an economic recovery? If the current and increased supply of Treasury debt coming to market were "crowding out" private debt issuance, then the yields on privately-issued debt would be holding steady or rising in tandem with the rise in the Treasury bond yield. But again, yields on privately-issued debt are falling. In sum, investor risk appetite is returning, which is a good thing for the prospects of an economic recovery, not a bad thing.